TILA-RESPA Integrated Disclosure Rule

127

Days Until
Aug 1, 2015

With one of the most sweeping regulatory changes for credit unions in decades less than three months away, MWCUA is dedicated to helping you prepare. Each week we will present a topic, question, or idea taking you one step closer to successful implementation.

To ensure compliance with the TILA-RESPA Integrated Disclosure Rule, has your credit union established an effective second review process for all affected real estate loans?

Regulatory Compliance News

Mountain West Credit Union Association

March 27, 2015

Compliance News

Compliance: CFPB updates TILA-RESPA Materials with Latest Revisions

In preparation for the Aug. 1 implementation date for the Consumer Financial Protection Bureau's (CFPB) Truth in Lending Act-Real Estate Settlement Procedures Act (TILA-RESPA) integrated disclosures rule, the bureau has updated a number of its materials relating to the rule.

The bureau's small entity compliance guide, loan originator small entity compliance guide, guide to forms and example disclosure timeline have all been updated to include two changes that were finalized in January.

These changes extend the timeline by which creditors are required to provide a revised Loan Estimate form to three days, as opposed to the same business day as was originally the rule. The second change creates a space on the Loan Estimate form where language regarding a construction loan can be placed.
CUNA's compliance staff will be updating *CompBlog* leading up to Aug. 1 with question-and-answer posts about specifics of TILA-RESPA compliance.

Source: CUNA News Now

NCUA Videos on CDFI Fund Certification

A new five-part video series, "CDFI Fund Certification," is now available online on NCUA's YouTube channel. The series shows how Community Development Financial Institution certification opens financial doors to credit unions to help them in serving the underserved.

Source: NCUA

NCUA Cites Improvements in Corporate Resolution, Guaranteed Notes Programs

The upper and lower ends of the projected Temporary Corporate Credit Union Stabilization Fund assessment range remain negative, from a negative $2.5 billion to a negative $700 million, the National Credit Union Administration announced Tuesday.

According to the agency, as long as both ends of the range remain negative, it is unlikely credit unions will be charged future stabilization fund assessments.

The announcement came as part of a release of updated information about the

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costs of the NCUA's Corporate Resolution Program and the performance of the agency's Guaranteed Notes Program. Credit unions have paid $4.8 billion in assessments since the creation of the stabilization fund in 2009. The fund is scheduled to expire in 2021.

"The good news is that the assessment range became even more negative over the latest six-month reporting period" said Bill Hampel, CUNA's Chief Policy Officer. "From the second to the fourth quarter of 2014, the mid-point of the assessment range 'fell' from negative $1.2 billion to negative $1.6 billion, an improvement of $400 million. Since a negative assessment is a likely future rebate, this is positive news: it means the expected size of future rebates has increased. However, it will likely be several years before any rebate is paid to credit unions."

According to the NCUA, it is still obligated to repay $2.6 billion in outstanding borrowings from the U.S. Treasury. Principal and interest on the NCUA Guaranteed Notes, as well as other obligations of the stabilization fund, also must be fully repaid before NCUA can distribute any remaining funds to credit unions.

"These debts will be paid with proceeds from the legacy assets from the closed corporates" said Hampel. "Funds left over after paying these obligations will be the source of rebates."

The NCUA has pending litigation against several Wall Street firms, seeking recoveries on faulty securities purchased by the failed corporate credit unions as well as separate litigation alleging violations of federal and state anti-trust laws by manipulation of interest rates in the London Interbank Offered Rate (LIBOR) system.

The agency is also pursuing or participating in repurchase actions and litigation against trustees. Net recoveries from this litigation will help reduce the assessments credit unions will need to pay over time.

Source: CUNA News Now

FATF Updates List of Jurisdictions with AML/CFT Deficiencies

The Financial Action Task Force (FATF) has updated its list of jurisdictions with strategic anti-money laundering and combating the financing of terrorism (AML/CFT) deficiencies. The FATF has urged U.S. financial institutions to impose countermeasures on Iran and North Korea and has called for enhanced due diligence for the jurisdictions of Algeria, Ecuador and Myanmar. In addition, Afghanistan, Angola, Guyana, Indonesia, Iraq, Laos, Panama, Papua New Guinea, Sudan, Syria, Uganda and Yemen have been identified as having AML/CFT deficiencies. The lists, updated Feb. 27, were just made public.

Source: CUNA News Now

March NCUA Report Includes Info on Laundering Scam

The NCUA Report March issue is available and its lead story examines a growing form of money-laundering activity--the use of funnel accounts.

The accounts, the article notes, usually fly under the Bank Secrecy Act radar by keeping transactions below the $10,000 trigger for suspicious activity reporting. However, a credit union or other financial institution could be tipped off to possible criminal activity by observing this kind of red flag activity: Funds from cash deposits made to an individual consumer or business account in one geographic location are withdrawn at a different location with little time elapsing between the two transactions.

Criminal organizations use larger institutions as well as small- and medium-sized ones for different forms of the funnel account schemes.

To read more about warning signs of funnel accounts and associated reporting requirement, see this month's issue of *The NCUA Report*.

Source: CUNA News Now

Spring Training for AML Monitoring

Spring training for Major League Baseball is winding to a close, which means

SARs and Elder Abuse

FinCEN issued Advisory FIN-2011-A003 (02/22/2011) to assist the financial industry in reporting instances of financial exploitation of the elderly, a form of elder abuse. Financial institutions can play a key role in addressing elder financial exploitation due to the nature of the client relationship. The guidance shares a number of "red flags" that might signal elder abuse. Here are some examples:

- Debit transactions that are inconsistent for the elder
- Uncharacteristic attempts to wire large sums of money
- Closing of CDs or accounts without regard to penalties
- The financial institution is unable to speak directly with the elder, despite repeated attempts to contact him or her
- The elderly individual's financial management changes suddenly, such as through a change of power of attorney to a different family member or a new individual

In addition, FinCEN gives guidance on the completion of SARs involving elder abuse. Click here for the full advisory.

CU Compliance Connection – CFPB Integrated Mortgage Disclosure

The CFPB Integrated Mortgage Disclosure requirements are effective August 1, 2015. To be prepared for the changes, review the disclosures requirements by watching this CU Compliance Connection presentation. Click here for the video.

Advocacy Highlight

CUNA Requests Comments on NCUA's Fixed Assets Proposal

CUNA has posted a Comment Call for NCUA's latest fixed asset proposal, which would make two important improvements to the 2014 fixed assets proposal. The new proposed rule would only apply to federal credit unions and would eliminate the 5% aggregate limit on investments in fixed assets that is currently in place for federal credit unions with $1,000,000 or more in assets. (CUNA urged the opening day will soon be upon us. Over the course of a long season, the teams that have used their spring training wisely frequently find that it makes the difference between being a playoff contender and an also-ran.

In a similar fashion, efforts to thoroughly validate an anti-money laundering system can pay off in the long run.

How do you achieve a strong AML system? Here are four areas to work on to get you closer to post-season form.

Have a Personalized Game Plan

What kind of manager would try to run his team like any other team, without regard for the specific strengths and weaknesses of each player. A fired manager, that's who. Every single baseball team requires its own, unique approach. The players learn to work with each other, play to their strengths, and compensate for their vulnerabilities. The same goes for AML monitoring.

Too often financial institutions try to go with the vague, generic monitoring parameters that came with the system instead of taking the time to tune it to the institution's unique risk factors. There is no single list of rules and parameters that will work for everybody. It is important to take a look at the types of activities that merit attention in your area, and whether those types of activities are being addressed by your AML system. Now might be a good time to put your AML system through its own spring training to work out anything it might be missing.

Work on Your Batting Average

A rule that generates a significant numbers of alerts that rarely result in a SAR is the equivalent of a batter who swings hard at everything, but strikes out most of the time and hasn't hit a homer since the Reagan administration. While you don't want your AML system to over-compensate and stop swinging entirely, there is usually room to tighten up that strike zone to improve the ratio of alerts to SARs. On the other hand, if a rule generates only a few alerts, but many of those alerts are escalated, you may want to lower those rule parameters. Either way, reviewing the stats and conducting analysis and documenting revisions shows regulators that you are pursuing an efficient AML System.

Practice, Practice, Practice

The first baseman fields the ball, spins, and throws to the pitcher covering first for what should be the final out. Only the pitcher, who wasn't paying attention during spring training, was slow to leave the pitcher's mound, so the ball sails into the dugout, runners on second and third score, and the game is over.

Sometimes one little glitch in the system messes up the whole game. The same is true for an AML monitoring system. The potential for a tiny flaw in the parameter settings may result in missed alerts or false positives. And often these flaws are missed because internal personnel didn't understand them or have access to the information behind the alert. It is important that analysts have sufficient knowledge of what causes alerts, and that if they find transactions that triggered alerts but shouldn't have, they do a little digging to find out why. That means training. It also means documentation of the effort to identify and correct the errors, which also promotes model accuracy and efficiency.

Hit to All Parts of the Field

The AML monitoring needs to be tested on both a macro and micro basis. That means looking at thresholds for all transactions as well as those for specific customers or members who may warrant exceptions to given thresholds. What's more, when rule thresholds are raised or lowered, it is important to compare the number of generated alerts and output ratios to what you got from the old settings. If a test of a higher threshold results in 100 fewer alerts generated in a given period, but your review of those 100 alerts that fell below the new threshold reveals no activity that should be escalated, then that suggests that the new threshold level may be valid. Conducting and documenting this type of sandboxing

Board to remove the 5% limit in the comment letter on the 2014 proposal.)

Instead of applying the current aggregate limit, the Board proposes to oversee ownership of fixed assets through the supervisory process and guidance; remove the waiver provisions regarding the aggregate limit; establish a single six-year time period for partial occupancy of premises; and discontinue the 30-month requirement for partial occupancy waiver requests. NCUA has indicated that if the proposal is adopted, it will issue new supervisory guidance on fixed assets to examiners, which will be available to federal credit unions.

During the Board meeting, Board Member Mark McWatters cautioned that the guidance should not, in effect, impose additional limitations. CUNA applauds the new proposed changes but agrees that implementation of the rule will be critical. The proposal will have a 30-day comment period once published in the Federal Register.

Positive Report on Condition of Corporate Stabilization Fund

During last week's NCUA Board meeting, agency staff reported on the condition of the Temporary Corporate Credit Union Stabilization Fund. For 2014, year-to-date, the Fund's total income was $60.3 million, which is down from $761.6 million for 2013 due primarily to a lack of special assessments in 2014. However, outstanding borrowings from Treasury decreased to $2.6 billion as of December 31, 2014, from $2.9 billion outstanding at the end of 2013. Commenting on the positive trend of the Fund, Chairman Matz asked staff about the possibility of a refund to credit unions. Consistent with previous comments, staff indicated that any such refund would not come until 2021 when the Fund will sunset.

Source: CUNA

This week's Regulatory Advocacy Report will bring you up to speed on the following issues:

- CUNA Submits Individual and Joint Comment Letters on CFPB Prepaid Cards Proposal
- CUNA Requests Comments on NCUA's Fixed Assets Proposal
- CFPB Seeks Input on Credit Card Market
- CUNA Comments on NCUA's EGRPRA Review
- Positive Report on Condition of Corporate Stabilization Fund

Be sure to visit CUNA's Risk-Based Capital blog

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both on a macro and micro basis promotes and demonstrates the merits of adjustments made to the model's inherent risk-detection capacity and overall system efficiency.

While these types of efforts may be time-consuming on the front end, much like a successful spring season, these are the kinds of efforts that can help make sure your financial institution is still playing ball in October.

Ken Agle, AdvisX President, will be offering a special webinar on how to optimize your AML Validation Monitoring. The webinar titled "The Four Corners of BSA AML Investigation" will be held on April 15, 2015.

Ken will discuss the four crucial trouble spots many struggle with:

- Rules monitoring ALL suspicious activity types
- Insufficient comparison of rules to alerts
- Disconnect between rules and output
- Testing the baseline on a macro and micro bases

To see a preview of the webinar click here: http://www.riskinbox.com/risk-watch-extra/

To register for the event: http://www.advisx.com/advisx-webinar-the-four-corners-of-bsa-aml-investigation/

Source: CU Insight

MOUNTAIN WEST
Credit Union Association

Training & Events Calendar

April 2
Webinar: Opening Trust Accounts: Compliance, Documentation, Signing Authority & Deposit Insurance Issues

April 7 – Denver
April 9 – Phoenix
Mortgage Loan Originator Training

April 22
Webinar: TILA/RESPA Integrated Disclosure Line-by-Line – **Part 2**: Closing Disclosure

April 23 - Denver
Interest Rate Risk and Investment Strategies

April 23
Webinar: Current Trends in Cyber Crime & Payments Fraud

April 27
Webinar: Important SAR Procedure Updates from the Revised BSA/AML Exam Manual

April 28
Webinar: Red Flags, Privacy & Ethical Considerations: Know Your Compliance Responsibilities

April 30
Webinar: BSA Compliance Series: Updating Your Credit Unions's BSA/AML/OFAC Risk Assessment

May 14
Webinar: Home Equity, HELOC & Second Lien Risk Management, Including Maturing HELOC Guidance

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CUNA Schools and Webinars

Compliance Calendar

March 3
- Permissible Derivatives - Effective Date

March 30
- NACHA Operating Rules Changes

April 24
- 5300 Call Report Due to NCUA

April 30
- Credit Card Quarterly Agreement Submission Due to CFPB (10,000 or more open credit card accounts)

May 25
- Memorial Day – Federal Holiday

CUNA Comment Calls – Due Dates on Proposed Rules

March 1, 2015~NCUA
Economic Growth and Regulatory Paperwork Reduction ACT (EGRPRA) Regulatory Review

March 8, 2015~NCUA
Risk Based Capital Proposal (RBC2)

March 9, 2015~CFPB
Safe Student Account Scorecard

March 9, 2015~CFPB
Amendments to 2013 Mortgage Rules Under RESPA/TILA

March 9, 2015~CFPB
Prepaid Accounts

March 16, 2015~CFPB
Proposal Regarding Rural and Underserved Areas

March 20, 2015~NCUA
Capital Planning and Stress Testing – Schedule Shift

April 20, 2015~NCUA
Fixed Assets

May 1, 2015~NCUA
Small Entity Definition

May 6, 2015~CFPB
Credit Card Market Review

July 13, 2015~NCUA
2015 Annual NCUA Regulatory Review List

Effective Dates
New and Revised Rules

August 1, 2015~CFPB
TILA-RESPA Integrated Disclosure Rule

December 31, 2015~IRS
"Foreign Account Tax Compliance Act" (FATCA) Rule

April 1

Webinar: New Accounts for the Frontline – Compliance Issues to Watch For

April 12 - 17

Regulatory Compliance School – Las Vegas

June 1 - 18

CUNA Consumer Lending eSchool

June 1

Webinar: Basics of Consumer Lending – Part 1

June 4

Webinar: Home Equity Lending

June 8

Webinar: Basics of Consumer Lending – Part 2

June 11

Webinar: Consumer Lending Compliance 101